

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: 1999-2000 Proposed Budget

ITEM NUMBER: 4

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: September 3, 1998

INFORMATION:

PRESENTER: Ms. Plett

SUMMARY

Attached is the revised Proposed Budget for the 1999-2000 fiscal year. The proposed budget has been revised to \$46,640,000 to reflect additional baseline adjustments and minor adjustments to the proposed budget change proposals. Also presented for the Committee's review are the detailed narratives for the proposed budget change proposals.

Staff are seeking approval of this revised budget and anticipate submitting a final budget package to the Committee in October for approval.

19-May-98

INITIAL PROPOSED BUDGET
1999-00 BUDGET YEAR
STATE TEACHERS' RETIREMENT SYSTEM
FUND 0835

1998-99 APPROVED GOVERNOR'S BUDGET \$44,672,000

I. BASELINE ADJUSTMENTS:

Merit Salary Adjustment	(Estimate only)	343,000	
Price Increase @ 2%	(Estimate only)	308,000	
Delete 1998-99 One-time Costs		(4,869,000)	

Total Baseline Adjustments			(4,218,000)

II. 1999/00 Proposed Budget Needs, as of May 14, 1998:

Business Growth	1,389,400	
One-Time Expenditures	4,717,500	

Total Proposed Budget Needs		6,106,900

TOTAL PROPOSED, 1999/00		\$46,560,900
		=====

August 16, 1998

REVISED PROPOSED BUDGET
1999-00 BUDGET YEAR
STATE TEACHERS' RETIREMENT SYSTEM
FUND 0835

1998-99 APPROVED GOVERNOR'S BUDGET \$44,672,000

Legislative Addition: Actuarial Evaluation 50,000

I. BASELINE ADJUSTMENTS:

Merit Salary Adjustment	(Estimate only)	343,000	
Salary Adjustment - CEO and CIO		Pending	
Price Increase @ 2%		308,000	
Calif Highway Patrol Security Assessment		58,000	
Postage Increase		23,000	
Pro Rata Adjustment		Pending	
Employer Retirement Rate Decrease		Pending	
Delete 1998-99 One-time Costs		(4,869,000)	
Delete Actuarial Evaluation		(50,000)	

Total Baseline Adjustments			(4,187,000)

II. 1999/00 Budget Change Proposals

Business Growth	1,441,000	
One-Time Expenditures	4,664,000	

Total Budget Change Proposals		6,105,000

TOTAL PROPOSED BUDGET, 1999/00	-----	\$46,640,000
	=====	

August 16, 1998

BUDGET CHANGE PROPOSALS
1999-00
STATE TEACHERS' RETIREMENT SYSTEM
FUND 0835

BCP <u>No.</u>	<u>PROPOSED CHANGE</u>	<u>Positions</u>	<u>Amount</u>
1.	Provide continuing funding for the START Project.	- - -	\$3,500,000
2.	Establish one position in support of the Contract Office.	1.0	\$47,800
3.	Establish eight positions in support of additional activities in the Investment Office.	8.0	\$731,900
4.	Provide additional funding for Client Benefits & Services staff to work overtime during the conversion from the IDMS system to the new ADATABASE system.	- - -	\$200,000
5.	Establish 3 positions in support of increased workshops in the Mid-Career Program.	3.0	- - -
6.	Establish one position in support of the Cash Balance Plan in the Division of Accounting.	1.0	\$63,200
7.	Provide funding for contract programmers to support IDMS maintenance in the Information Technology Division.	- - -	\$378,000
8.	Provide funding to replace 3 production printers in the Information Technology Division.	- - -	\$73,000
9.	Provide funding to replace LAN infrastructure which includes: - HVAC Power Units (\$82,000) - LAN Router (\$28,000) - Client/Server Development Tools (\$30,000)	- - -	\$140,000
10.	Establish six positions in support of the Membership Division.	6.0	\$350,200
11.	Provide additional funding for printing of the Annual Statement of Account in the Membership Division.	- - -	\$57,000

BUDGET CHANGE PROPOSALS
 1999-00
 STATE TEACHERS' RETIREMENT SYSTEM
 FUND 0835

<u>PROPOSED CHANGE</u>	<u>Positions</u>	<u>Amount</u>
12. Establish one position in support of STRS marketing effort in the Public Affairs Office.	1.0	\$92,700
13. Provide TRF funding in support of continuing two positions for the Cash Balance Plan.	- - -	\$133,600
14. Establish one position in support of the Cash Balance Plan in the Planning and Research Office	1.0	\$56,300
15. Establish one position in support of new activity for optional supplemental benefits in the Planning and Research Office and provide funding for a health benefits study.	1.0	\$281,300
	<hr/>	<hr/>
Total BCP'S	<u>22</u>	<u>\$6,105,000</u>

1999-00 BUDGET CHANGE PROPOSALS
BCP #1

TITLE: START Project

BRANCH/OFFICE: Executive Branch
START

SUMMARY: Due to a shift of deliverables to a future fiscal year this BCP is to fund ongoing and additional expenditures for the START data processing project. Funding is needed to continue to pay oversight, testing and conversion consultants; Teale Data Center; extended warranties; implementation; and provide funding for a lump sum payment

TOTAL POSITIONS: -0-

TOTAL COST: \$3,500,000 (one-time funding)

TITLE OF PROPOSED CHANGE:

START Project

A. NATURE OF REQUEST

This request is to increase the Operating Expense and Equipment Budget for the State Teachers' Automation Redesign Team (START) Project for the Budget Year 1999/00 by \$3.5 million. This increase will pay for the Contractor developing START, the Oversight and Testing and Conversion Consultants; Implementation costs and processing at the Steven P. Teale Data Center.

B. BACKGROUND/HISTORY

Recognizing the need to modernize its automated systems, STRS undertook the project in July of 1994 to redesign primary data bases and processing systems. This undertaking was the result of a feasibility study that recommended developing a new data base design and migrating STRS' automated applications to a new data base management platform and developing in a new application programming language. With approval from the Teachers' Retirement Board, a Request for Proposal to redesign STRS' automated systems was released in March of 1995. The name of this redesign is the START Project (State Teachers' Automation Redesign Team).

The START Project, until now, has primarily been funded from redirected resources. Budget Change Proposals were submitted and approved for 1996/97 (\$1.5 million) and 1998/99 (\$4 million). Through the 1998/99 year, \$7.3 million has been redirected to this project. In March of 1998, a revised workplan was issued that changed the planned delivery and acceptance to another budget year 1999/00. This in itself, created a greater than expected dollar requirement in 1998/99. To resolve this in part, the withholding and reserving of 25% of payments to the development contractor will be shifted to 1999/00. In addition, by lengthening the schedule, additional costs will be incurred for oversight, testing and conversion consultants. Lastly, additional work has been identified for the development contractor.

C. STATE LEVEL CONSIDERATIONS

None.

D. JUSTIFICATION

START is the number one strategic project for STRS, as detailed in STRS Business Plan. All components within the request are essential to the successful completion of the Development, Testing, Conversion and Implementation Phases of the Project. For reference purposes, further justification for START can be found in the Feasibility Study Report dated April 8, 1994, Request for Proposal/Contract Number 95-075S. Attachment A, START Project Detailed Budget Plan dated 6/18/98 provides additional financial data.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1 – Extend Project Timelines

The project can be extended into another budget year to reduce the project's funding in 1999/00. The effect would be to defer the requirement for additional funding by one year into Budget Year 2000/01. However, redirected resources would still be insufficient by about \$2.5 million in 2000/01.

Pros

- Pays for the project without additional funding in 1999/00.
- Provides more time for project completion.

Cons

- Project is likely to cost more.
- Additional monies are needed in the year 2000/01
- Puts off improved service opportunities important to STRS.
- Adversely impacts other projects.

Alternative 2 – Scale down project:

The project could be made smaller by eliminating some of the system development enhancements and/or minimize the extent of the conversion or testing. Other steps could be taken, such as, limiting training and system fixes.

Pros

- Would accomplish project on time
- May not require additional funding.

Cons

- Increases the risk of successful implementation and may be more costly in the long run.
- Would adversely affect other projects dependent on new features.
- Would not provide the functionality and features anticipated.
- Would not achieve the full level of flexibility desired.
- Would restrict ability to achieve anticipated service levels.
-

Alternative 3 - Continue project as planned:

Submit a BCP to augment the funds to be allocated to the project.

Pros

- Allows the project to be delivered within the March 1998 workplan.
- Provides full functionality of deliverables.
- Provides the anticipated level of flexibility in new system.

- Accomplishes the anticipated levels of service.
- Overall costs would be less than Alternative 1 and 2.

Con

- Requires additional funding during the term of the project.

Alternative 4 – Stop the Project

Terminate development of the project. This alternative would leave STRS with the decision of remaining with the current system and re-reviewing the strategic plan for information technology.

Pros

- 1999/00 Budget Change Requests may not be necessary.

Cons

- STRS will not be strategically placed for information technology.
- Probably involve STRS in litigation.
- Time for developing a revised Feasibility Study Report, bid documents and other start up activities.
- Additional monies may be needed in year 1999/00.
- Maintainability of current system will need to be increased.

F. TIMETABLE

START Implementation in March 2000.

G. RECOMMENDATION

Recommend Alternative 3, Continue project as planned.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 2

TITLE: Contract Office Staff Augmentation

BRANCH/OFFICE: Administration Branch
Administrative Services

SUMMARY: This BCP requests funding to establish a Management Services Technician to perform clerical support and the less complex technical duties in the Contract unit. The number of contracts and the product mix have grown significantly over the past five years. For example, over the prior two fiscal years, the number of contracts in force has grown over 40 percent.

TOTAL POSITIONS: 1.0

TOTAL COST: \$47,800 (\$45,900 permanent funding)
(\$ 1,900 one-time funding)

TITLE OF PROPOSED CHANGE:

Contract Office Staff Augmentation

A. NATURE OF REQUEST

This BCP seeks to establish a Management Services Technician (MST) position in the Contract Office. The MST will be a permanent full-time position that will perform clerical support and more importantly will assume the less complex analytical duties performed by the three analysts in the Office. The MST will initially replace and assume the duties performed by the student assistant and would eventually be assigned the more routine analytical duties performed by the analysts.

B. BACKGROUND/HISTORY

The Contract Office is responsible for providing contract development and consulting services to STRS' staff. They are routinely called upon to develop agreements that range from simple service agreements for insignificant dollars to competitive processes that result in multi-year contracts valued at several million. For several years contract volumes were hardly sufficient to justify two analysts, let alone full-time clerical support. However, the workload demands in Contract Office has grown significantly over the last five years.

On an increasing basis we see the need to move away from a standard cookie cutter approach to developing contracts to one that tailors processes and instruments developed to meet the specific needs of STRS' staff. As detailed in Attachment 1, the number of equivalent contracts processed annually virtually doubled from 1993-94 to 1997-98. More importantly however, it's critical to note that the number of competitive processes developed to meet the particular needs of STRS' staff have increased by 31% since the 1995-96 State fiscal year (see Attachment 2). In an effort to keep pace with workload demand additional part-time staff have been used and the overtime budget for the analytical staff increased.

Although we've been able to keep pace with the increased workload, overtime and temporary help expenditures have been increased dramatically as shown in Attachment 3. At the same time however, our clerical support continued to be structured around part-time staff availability and related limitations that center on available hours and training. All too frequently our response to the above limitations is the analytical staff performing recurring support duties.

C. STATE LEVEL CONSIDERATIONS

There are no State level considerations to be addressed with this BCP.

D. JUSTIFICATION

In recent years we've asked the Contract analysts to improve the quality of the products they produce. At the same time we've also asked that the improved products be delivered timely. The Evergreen process used in Investments and the Mid Career Workshop Presenters contract process used in Client Services are good examples of the quality product the Contract analysts have partnered with STRS' staff to develop and implement.

Clearly, the one very real limitation has been the absence of trained, full time clerical support. Countless hours have been logged in training and retraining support staff. These efforts are all to frequently stymied as the student assistant school requirements or retired annuitant hour limitations force the analysts to shift assignments or get support from other unit within the Branch.

With the MST we anticipate eliminating the part-time help and at the same time significantly reducing staff overtime. As indicated in Attachment 3 this would equate to approximately 50% of the cost of the full-time position. As we call upon the Contract analysts to become more attuned to STRS' staff needs, we must release them to focus on the analytical aspects of their jobs. The MST will assume the recurring support duties.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Continue Utilizing Existing Staff

This alternative is not feasible as it fails to address the issues; workload demands are such that the analytical staff can no longer function with part-time clerical support. STRS is facing continued workload growth that further argues for full-time support.

Further Expand Overtime and Temporary Help

While this alternative appears to address the workload and support issues, its clearly far less cost effective and beneficial to the unit overall. The central problems in scheduling and training temporary help argue for assigning the Contract Office support duties to a full-time support position.

Establish New Position

Clearly the only real, long-term solution is to permanently establish a full-time MST in the Contract Office.

F. TIMETABLE

Establish position to be effective July 1, 1999.

G. RECOMMENDATION

Augment Contract Office staff by establishing a Management Services Technician (MST) position.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 3

TITLE: Investment Officers for Various Programs

BRANCH/OFFICE: Investments Branch
Investments Support

SUMMARY: This BCP requests funding for eight positions to expand the activities of the Investment Branch. Two Supervising Investment Officer III's, four Investment Officer II's, and two Investment Officer I positions are being requested to expand and/or implement several investment activities. Among them are: internal securities lending, member home loan program, monitoring external equity managers, and management of a real estate equity co-investment program. Five of the eight positions are contingent upon further approval by the Board's Investment Committee.

TOTAL POSITIONS: 8.0

TOTAL COST: \$731,900 (\$668,400 permanent funding)
(\$ 63,500 one-time funding)

TITLE OF PROPOSED CHANGE:Investment Officers for Various Programs**A. NATURE OF REQUEST**

Establish eight positions for increased workload and implementation of new programs as follows:

Investment Officer II - management of an internal securities lending program
 Investment Officer I - expand and oversee the Member Home Loan Program
 Investment Officer I - monitor the activities of the external equity managers
 *Investment Officer II (2) - implement and manage a real estate equity co-investment program & establish and internally manage the real estate property management function
 *Investment Officer II - expand and manage the co-investment program for alternative investments
 *Investment Officer III - internal management of an enhanced index portfolio
 *Investment Officer III - increased activity due to an expansion of the Credit Enhancement Program

*These positions will be required only if the activities are approved by the Investment Committee.

B. BACKGROUND/HISTORY

The current value of the STRS portfolio is in excess of \$85 billion. This represents a growth of over \$10 billion in one year. To manage and maintain this growth STRS must pursue a plan that maximizes the return on the portfolio, while minimizing risk. In recognition of this, the Teachers' Retirement Board updated and adopted the following asset allocation plan last year:

Domestic Equity	38%
International Equity	25%
Fixed Income	26%
Real Estate Equity	5%
Alternative Investment	5%
Cash	1%

To achieve these targets new and innovative programs must be analyzed and implemented if feasible. Additionally, it is recognized that increased income from off balance sheet transactions (i.e., securities lending, credit enhancement) is possible.

C. STATE LEVEL CONSIDERATIONS

Not applicable.

D. JUSTIFICATION

Some programs have been approved by the Teachers' Retirement Board (Board), with direction to implement within a timeframe. Other programs will be presented to the Board for approval on implementation.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

1. Not implement the Board approved programs. This is not acceptable as the potential increased income and return on the portfolio will not be recognized.
2. Approve the request for the positions.

F. TIMETABLE

July 1, 1999

G. RECOMMENDATION

Alternative #2.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 4

TITLE: Overtime and Temporary Help Augmentation

BRANCH/OFFICE: Client Benefits and Services Branch
Service Retirement, Survivor Benefits, and Disability

SUMMARY: In order to continue with planned service levels and at the same time implement START, an augmentation to existing levels of overtime and temporary help is needed. Funds from this BCP are to pay staff resources during database implementation and allotted to data clean-up, downtime recovery and testing. While total expenditures are estimated at \$300,000, an internal redirection of \$100,000 will be used as a partial offset.

TOTAL POSITIONS: -0-

TOTAL COST: \$200,000 (one-time funding)

TITLE OF PROPOSED CHANGE:

Client Benefits and Services Branch Overtime and Temporary Help Augmentation to Accommodate START Implementation

A. NATURE OF REQUEST

During Fiscal Year 1999-2000, STRS anticipates the culmination and implementation of a multi-year database conversion project. This BCP is to provide the necessary resources to address the numerous implementation tasks in both a pre and post START environment. This one-time augmentation will allow the flexibility to handle the shifting priorities necessary to successfully implement the project while still maintaining expected service levels in the delivery of benefits and services to STRS members.

B. BACKGROUND/HISTORY

The START project has been ongoing for several years. This database development and conversion project has required a large commitment of STRS staff, particularly in the CBSB. Facing the actual implementation of a project with this magnitude and scope, staff have identified three primary tasks which cannot be accomplished with ongoing staffing allocations. It is anticipated that by providing a one-time overtime and temporary help augmentation STRS will be able to accomplish the database implementation tasks while maintaining ongoing production. The tasks for which these funds will be allocated are defined as follows:

1. **Data clean-up:** In order to insure the accuracy of member and data records to be converted, a major effort to analyze and correct exception listings and non-processed records within the current database must be made.
2. **Downtime Recovery:** It is anticipated that there will be approximately 30 days during the actual conversion from the IDMS to ADABAS that the on-line system will not be available for data entry. Following this period of "downtime", STRS staff will be required to process all of the data entry workload (1,000 Service Retirement applications, 430 death notifications, 50 disability applications, 1,000 address changes, 3,000 beneficiary changes) that would normally have been processed during the 30-day period, plus the new incoming workload once the new ADABAS system becomes operational.
3. **START Testing:** It is anticipated that the testing for START programming must occur within the normal work hours of benefit and service programs. Accordingly, some production staff will be redirected from their normal workload to the testing effort. Overtime will enable staff to complete production workload during the START testing period.

C. STATE LEVEL CONSIDERATIONS

Without this overtime augmentation, a considerable backlog of cases will result and STRS members will not receive retirement benefits and services in a timely manner, beneficiaries of deceased teachers will not receive survivor benefits and disabled teachers will not receive the

benefits necessary to support them in their time of need. Processing delays beyond the statutory work standard will result in interest penalties being incurred by the System.

D. JUSTIFICATION

With a project of this magnitude and scope, it is impossible, at the current staffing levels, to implement the new database within existing resources, and to maintain service delivery system levels achieved by STRS. Without the augmentation, services to our client population would be greatly reduced and delayed for an excessive and unacceptable period of time.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Provide the Client Benefits and Services Branch with an overtime and temporary help augmentation to provide the flexibility to allocate resources and staffing as needed.

All tasks required by the database implementation necessitate the focus and use of trained, knowledgeable staff at the time of immediate need. It is not feasible to recruit new or temporary staff for these tasks. The training period and learning curve would be excessive and would nullify any benefits gained by recruiting additional resources. Data conversion issues will be time critical and require immediate resolution in order to insure that implementation is completed on schedule. Testing is also a time critical function and will require resources to be allocated as each part of the database is developed, in order to proceed on schedule.

Alternative 2: Do not increase resources. Recognize that during the implementation phase the normal workload of the benefit and services programs will become backlogged and that services to clients will be delayed for an indefinite period of time. The results will most likely be unhappy clients and additional interest penalty payments.

Alternative 3: Provide limited-term positions to programs in order to provide resources required to complete pre and post implementation tasks as well as complete the on-going production workload. The training period is usually a minimum of six to nine months. Therefore the use of limited-term positions would not provide trained, knowledgeable staff as required for the implementation tasks or the on-going workload.

F. TIMETABLE

Alternative 1 would allow funding to be available to the Client Benefit and Services Branch throughout the fiscal year 1999-2000 on a one-time basis.

G. RECOMMENDATION

Alternative 1. Provide the requested one-time overtime and temporary help augmentation to the Client Benefits and Service Branch to facilitate and fund the necessary work that must be completed as a result of the implementation of the new database.

CLIENT BENEFITS AND SERVICES BRANCH

Internal Agreement

The following table reflects the internal agreements among the Division Chiefs within the Client Benefits and Services Branch for the entire amount of \$300,000 approved by Executive staff for the Branch in the overtime category. This amount includes the \$100,000 being redirected from Disability's IME and the \$200,000 BCP being submitted.

Process	Service Retirement	Services	Survivor Benefits	Disability	Overall Cost Per Process
Downtime Recovery	60,000	22,500	55,000	12,500	150,000
START Testing			35,280		35,280
SB Temp Help			0		0
Data Clean-up	46,980	22,580	22,580	22,580	114,720
Program Subtotals	106,980	45,080	112,860	35,080	300,000

1999-00 BUDGET CHANGE PROPOSALS
BCP # 5

TITLE:	Mid-Career Program Expansion
BRANCH/OFFICE:	Client Benefits and Services Branch Regional Counseling Service/Mid-Career Program
SUMMARY:	This BCP requests authority to establish three positions in order to expand and improve the Mid-Career Program. The positions are a Staff Services Analyst who will be located in Sacramento and two Staff Services Manager I's assigned as regional coordinators within the state. Total expenditures are estimated at \$378,000 and will be funded in its entirety through redirection of existing resources.
TOTAL POSITIONS:	3.0
TOTAL COST:	\$ 0

TITLE OF PROPOSED CHANGE:Mid-Career Program**A. NATURE OF REQUEST**

Establishment of two Staff Services Manager I positions and one on-site Staff Services Analyst position to improve and expand the number of Mid-Career workshops offered to our members throughout the State. Funding will be redirected from existing resources to fund this proposal.

B. BACKGROUND/HISTORY

As of June 1997 CALSTRS has approximately 580,000 members of which approximately 424,000 are active/inactive, with the balance receiving benefits. These 424,000 members should all have educational information and tools available to them to maximize their purchasing power once they retire. It is STRS objective to provide the necessary educational materials, tools and services to achieve this objective. The Vision for these services is "Plan today... for the freedom to choose tomorrow".

In 1986, STRS established a Regional Counseling Program and currently has 19 locations throughout California to provide individual interviews to its members. The interviews are provided by county employees through a contract between STRS and the county office of education/districts. Typically these interviews are with members who are close to retirement and limited to STRS benefit programs. Approximately 22,000 individual interviews are provided on an annual basis. These 19 locations are currently located within the County Office of Education and School District Offices.

The regional counselors also conduct approximately 400 group workshops. Although all members are welcome, members in the range of 50 years old are encouraged to attend these workshops. Attendance is normally in the range of 50 members per workshop and subject matter is primarily limited to STRS benefits.

In late 1994, STRS established a Southern California Field Office to further partnerships with employer and client groups. An individual was chosen to speak at meetings, conferences and seminars and to represent STRS concerning policies, programs, legislation and other critical issues. The individual performing these services is actually a county employee, has previous experience with STRS retirement issues from the county perspective and is under contract with STRS to function in this capacity.

The Mid-Career Program began as a pilot project in the Fall of 1995 to meet CALSTRS members' needs for financial planning information. During the 1995-96 fiscal year, six workshops were held throughout California with 225 members attending. In 1997-98 over 1,000 members attended 18 workshops throughout California. Currently, STRS staff and Retirement Counselors are conducting these workshops with the understanding that positions dedicated to coordinating the Mid-Career workshops would be established in the future.

Concerning the program objective, it is STRS intent to expand and improve the number of Mid-Career Workshops offered over the next three years as follows:

1. Increase the number of mid-Career workshops to 100 by the end of the year 2000. Funds were established for the 1998/99 fiscal year to comply with this direction.
2. Establish "Regional Coordinators" under the direction of Regional Counseling Services Program/Services Division who will be responsible for the coordination and delivery of the "new" financial workshops within a specific geographical area.
3. Focus on members beginning a career and provide a variety of information and services to them.
4. Members who have more than 10 years before retirement, or who are considering these topics for the first time, will be offered the opportunity to receive an introduction to STRS benefits with focus on the value of early planning.

5. Members who are less than 10 years away from retirement, particularly those who have attended interviews, will be able to attend seminars aimed at providing updated information on benefits as well as new products and services. Financial and Estate Planning will be key components of the presentations.
6. Members who are planning to retire within the next five years will be provided the individual Retirement Planning interviews including benefit estimates and estate planning.
7. Investigate the feasibility or use of “inservice days” as an opportunity to provide financial planning information to STRS members.
8. Establish access to Internet interactive financial planning tools tailored to STRS members.
9. Improve program content and materials.

Considering the above, the current Mid-Career Program will be greatly expanded to a “STRS Financial and Retirement Planning Program. Coordinated in a “Field Office” setting, these offices will offer seminars, workshops, individual financial and retirement planning interviews, and technology based self-assessment stations for members to gain an understanding about existing and future benefits. In Fiscal Year 1998/99, offices will be located in Los Angeles and the Bay Area. In 1999/2000 an additional office will be located in the San Diego or Northern California area.

C. STATE LEVEL CONSIDERATIONS

Section 22303.5 of the Education Code directs the State Teachers’ Retirement System to develop and deliver information to enhance the awareness of the features, benefits, and services of the system, federal Social Security Act programs and benefits as they apply to members, and awareness of personal planning responsibilities. This information is being provided via the “Mid-Career Program”.

D. JUSTIFICATION

This proposal will enable the State Teachers’ Retirement System to comply with the Education Code requirements as well as meeting STRS’ production objective of delivering 60 to 100 mid-career workshops in FY 1999/2000 to STRS members.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

1. The alternative to provide this service through a vendor was explored in the original development of the Pilot Program. CalPERS attempted to perform these services through a vendor but discontinued that approach because of problems with sales promotions and lack of control of content. At this point, the program has not been fully developed and activities/priorities established. Therefore, a vendor is not the preferred choice at this time.
2. Redirect existing funds to support the addition of two SSM I’s and one SSA to expand the number of programs offered, establish innovative tools (i.e., internet financial planning capability) and improve program content and scope.
3. Provide services through contract with districts or county offices. This is the method services are currently being provided, however, given the increase in program activities (i.e., services to new members, inservice activities) more coordination is necessary. This does not suggest that contracting with the districts in some capacity or for some of the counseling/financial planning services is not appropriate.

F. TIMETABLE

Expansion to approximately 30 seminars beginning July 1, 1998 and with the establishment of the two SSM Is and one SSA, further expansion to approximately 60 to 100 seminars beginning FY 1999/2000.

G. RECOMMENDATION

Fund the Mid-Career Program to establish CalSTRS employees as Regional Coordinators for the Mid-Career Program.

Attachment, Mid-Career **BCP#5**

	Budget Plan	Redirection of Funds	Net Cost
SALARIES & WAGES			
Staff Services Manager I (top of range)	68,900		68,900
Staff Services Manager I (middle of range)	63,000		63,000
Staff Services Analyst (middle of range B)	37,800		37,800
OPERATING EXPENSES AND EQUIPMENT			
General Expense <ul style="list-style-type: none"> Facilities (60x200): \$12,000 Refreshments (60x300): \$18,000 Minor equipment: \$8,000 General expense: \$3,900 	41,900	-50,000	-8,100
Printing <ul style="list-style-type: none"> Printing of promotional publications (brochure, flyer, poster, Annual Statement insert, newsletter ads): \$30,000 General Printing: \$4,200 Printing for educational materials used in workshops : \$67,500 Printing for training materials: \$2,200 	103,900		103,900
Communications	3,300		3,300
Postage	3,900		3,900
Travel - In State	13,600		13,600
Travel - Out of State			6,100
Training	6,100		4,600
Facilities Operations (on-site SSA)	4,600		
Utilities			
Consulting & Professional Services: Interdepartmental			
Consulting & Professional Services: External <ul style="list-style-type: none"> Development of workshop presentations, visuals, and publications: \$12,000 Market assessment and concept testing: \$10,000 	22,000	-327,600	-305,600
Consolidated Data Centers			
Health and Welfare Data Center			
Stephen P. Teale Data Center			
Data Processing (PROFs software & emulators, startup software for PCs, supplies for new PCs)	8,600		8,600
Equipment			
Debt Service			
TOTAL	\$377,600	-\$377,600	-0-

1999-00 BUDGET CHANGE PROPOSALS
BCP # 6

TITLE: Establish An Accounting Officer Position To Support Increased Workload

BRANCH/OFFICE: Information & Financial Systems Branch
Accounting Division

SUMMARY: Funding is requested to establish one Accounting Officer (Specialist) position. Additional staffing will give relief to new workload that has been absorbed over the past three years. Examples are START data processing project, improved monitoring of qualified rollover pre-tax dollars, new quarterly submission of state taxes instead of annually, and implementing new GASB accounting pronouncements.

TOTAL POSITIONS: 1.0

TOTAL COST: \$63,200 (\$58,100 permanent funding)
\$ 5,100 one-time funding)

TITLE OF PROPOSED CHANGE:**Establish Accounting Officer In Support of Increased Workload****A. NATURE OF REQUEST**

Establish one Accounting Officer Specialist position to address increased accounting workload brought on by administrative, legislative and regulatory changes.

Administrative changes over the past several years include the State Teachers' Automation Redesign Team (START project). A feasibility study report was approved in April 1994 to completely redesign STRS' old IDMS database. The START Project began in July 1994 and a core team of six people was formed. One of the core team members was a Senior Accounting Officer whose position was moved from the Accounting Division into the START Unit. The Accounting Division staff was reduced from 38 to 37. The workload performed by the Senior Accounting Officer was absorbed by hiring retired annuitants. In addition to the core team member, the equivalent to 3.5 Accounting Division staff members work full-time on the START project. The Accounting Division has attempted to absorb the workload assigned to those staff members by reassigning the most critical work tasks to other staff members and by the use of overtime. Another administrative change which has effected the Accounting Division was the automation of accounting for investment transactions as a result of a redesign project. The Investment Accounting Unit, due to the redesign project, was reduced by three PY in the 1996/1997 fiscal year. Two of these positions were redirected elsewhere in the agency, which resulted in a reduction of Accounting Division Staff to 35.

Legislative changes which have affected the Accounting Division workload include the implementation of SB 1027, the purchase of out-of-state service credit. This change, which is effective in the 1998/1999 fiscal year, required an increase of one PY to address the new workload. This increase brings the total number of staff in the Accounting Division to 36. Another legislative change affecting the Accounting Division was the institution of the Cash Balance Plan. This retirement plan for part-time teachers was implemented in the 1995/1996 fiscal year. The Cash Balance Plan began having active participants in February of 1997, and is increasing in participation by employers each month. The increased participation has caused an increase of active accounts by over 650 percent. All accounting workload associated with the Cash Balance Plan (accounting for contributions, interest, disbursements, receivables and investments) has been absorbed by the Division without staff increase. The Cash Balance Plan Program is expecting a similar increase over the course of the next fiscal year.

Regulatory Changes include additional workload mandated by the organizations which govern governmental accounting and taxes. "Rollovers" is a term used to describe the movement of pre-tax dollars from one qualified plan to another without the owner of the funds taking physical possession of those funds. The Federal Government, specifically the Internal Revenue Code, require that plans monitor and approve the appropriateness of the funds entering their plan prior to accepting pre-tax dollars. As any funds arriving

at STRS must be deposited in an extremely short period of time (1 day), this workload is a priority. The Internal Revenue Service also has requirements with which the System must comply for the submission of taxes related to benefit payments made each week. The Federal government has required that all payments be made electronically. The additional workload caused by this electronic submission of taxes has been absorbed by the Accounting Division as well. In addition to the Federal regulations, the State of California's Employment Development Department now requires that state taxes be submitted on a quarterly basis. The previous requirement was that an annual filing was sufficient, but, the advent of the quarterly filing has increased the accounting workload significantly without a corresponding increase in staff. Finally, over the course of the past three fiscal years, the Accounting Division has researched, developed and implemented policy and procedures mandated by the Governmental Accounting Standards Board's (GASB) pronouncements 10, 25, 27, 28 and 31. Pronouncement 10 required that the System perform risk analysis and disclose risk associated with the System's transactions. Pronouncement 25 required that investment assets be carried at fair value on the System's books rather than at cost, as has historically been done. That pronouncement also made sweeping changes to the financial statements and accounting methodology for pension funds. Pronouncement 27 required that the System calculate and post a liability for unclaimed benefit payments. Pronouncement 28 required that the System post and disclose information on Securities Lending transactions. Pronouncement 31 required that the pooled investments for the Defined Benefit and Cash Balance plans be presented and disclosed in a specific manner in the System's CAFR (Comprehensive Annual Financial Report). Each of these pronouncements were implemented without corresponding increase in staff, and each require ongoing analysis and update. Due to these workload increases the Accounting Division now finds itself in the position of having to request an additional PY to accommodate existing permanent work

B. BACKGROUND/HISTORY

The STRS Accounting Division is responsible for a host of products/services including maintaining the financial records and accounts following recognized accounting principles and controls which support the financial soundness of the System. The System fulfills its fiduciary responsibility (Education Code Section 22250) to the System's members and beneficiaries in several ways including financial reporting. The Division must annually report the System's financial position by publishing a set of financial statements which are audited by an external audit firm. The annual reports include a set of GAAP (Generally Accepted Accounting Principals) statements; a set of legal basis statements (required by law) and a set of LGRS (Local Government Reporting Section) reports. As stated above, over the past years, the Accounting Division has taken on increased workload due to START; Cash Balance; rollovers; recent changes instituted by the Internal Revenue Service (IRS) and Employment Development Department (EDD); new accounting reporting requirements promulgated by the Governmental Accounting Standards Board (GASB); added workload associated with the accounting for purchases of military service and the continuing effort to develop new controls and assess the adequacy of existing accounting controls and related reconciliations brought on by these administrative, legislative and regulatory changes. These changes, some of which were required by regulatory agencies, were

made in the best interest of the STRS membership consisting of approximately 160,000 benefit recipient and approximately 350,000 active (and inactive) membership at June 30, 1998. These changes benefit not only the members but all users of the System's financial statements. The users of the System's financial statements include, but are not limited to, Department of Finance, State Controller, State Treasurer, interested members, investment advisors, School Counties and Districts banking, financial institutions, and others.

At the time each of these new responsibilities was placed on the Accounting Division, no increased staffing level was requested as individually it was felt the new workload could be absorbed. However, due to the requirements of all of these changes, Accounting now finds itself unable to properly carryout all of its responsibilities without additional staffing, thus the nature for the request.

C. STATE LEVEL CONSIDERATIONS

This BCP is consistent with government policy and regulations as contained in the Teachers' Retirement Law, as set forth in Part 13 of Division 1 of the California Education Code. The establishment of this position is requested in order to meet STRS' goals and objectives

D. JUSTIFICATION

The goals and objectives of the System are to expand and improve upon benefits; continuously improve the delivery of benefits and services; deliver the maximum level of benefits and services with available funding; and to research and apply information technology which meets or exceeds internal and external needs. Meeting the legal and administrative requirements of the STRS retirements plans requires that the necessary infrastructure (database/controls/staffing) be in place to effectively provide the required products/services to the members of the plans.

The data base solution for the Plans is currently being addressed, however, the workload associated with START, Cash Balance, rollover, tax reporting, and governmental accounting standards has not been adequately addressed in accounting due to other critical workloads. Likewise, the accounting controls related to this workload, which have yet to be developed, are essential to ensure strict accountability with applicable state and federal requirements

The Accounting Division has not had a net increase in its number of budgeted positions over the last few years. As previously stated, the Division has attempted to handle the increasing workload without corresponding increases in staffing, in fact, the Division reduced staff due to efficiencies gained as a result of the Investment Accounting Redesign project. . Establishment of this position will ensure that critical accounting processes are being performed and controls are developed and in place to meet the System's fiscal responsibilities.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Use existing staffing -	This alternative is not viable as all existing staff are working to capacity on tasks critical to the successful operation of Teachers' Retirement Plans
-------------------------	--

Use overtime/temp help - This alternative is not viable as this workload is of a permanent nature. The use of temporary help and the nature of continued turnover and training of new staff is not efficient.

Establish new position - Establish a permanent Accounting Officer (Specialist) position to perform workload associated with the new legislative, administrative and regulatory requirements.

F. TIMETABLE

Establish a permanent, Accounting Officer (Specialist) position effective July 1, 1999.

G. RECOMMENDATION

Approve the required resources for funding of one permanent, professional level accounting staff to support the new workload.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 7

TITLE: Contract Programmers – IDMS Maintenance

BRANCH/OFFICE: Information & Financial Systems Branch
Information Technology Services Division

SUMMARY: Currently all Division analysts and programmers are working on the START data processing project. As a result, four contract programmers are providing technical support for the existing IDMS system. The IDMS system must continue to operate until the new START system is up and running, currently scheduled for March 2000. This request continues the funding for the contract programmers.

TOTAL POSITIONS: -0-

TOTAL COST: \$378,000 (one-time funding)

TITLE OF PROPOSED CHANGE:**Contract Programmers - IDMS Maintenance****A. NATURE OF REQUEST**

The State Teachers' Retirement System (STRS) is currently involved in an effort to convert our existing database and programs to an ADABAS/Natural environment. As such, all analyst/programming staff has been redirected to this effort. The current IDMS system supports all facets of our members work experience ranging from receipt of employee/employer contributions through benefit distribution due to retirement, disability or death. Until the new environment is ready, the IDMS system must be maintained and, at times, enhanced. The enhancements are most often due to legislative action at either the State or Federal level.

We estimate that to maintain the current IDMS system with approximately three and one half contract staff will cost \$654,630. Of this amount, \$276,630 is being redirected from salary savings from vacant positions leaving a net requirement of \$378,000. Contract rates have been on the increase over the past couple of years due to the expanding need for programmers to handle Y2K changes. Should we not be able to maintain the current system, we run the risk of having critical systems fail resulting in the potential that we could no longer pay the 175,000 benefit recipients or record the contributions for some 400,000 members.

B. BACKGROUND/HISTORY

The conversion from IDMS to ADABAS is scheduled for completion in March 2000. Should slippage occur, the completion date could move into the 2000/2001 fiscal year. It is imperative to insure that contract personnel remain on staff to maintain the system through the 1999/2000 fiscal year.

Over the past couple of years, we have had three to four contractors on staff to provide system support. These contractors have provided support for both enhancements and maintenance during this time.

C. STATE LEVEL CONSIDERATIONS

The current IDMS environment must continue to operate until the new START system is available. The 175,000 benefit recipients must be paid in a timely manner as mandated in law. With all staff redirected to the START project, it is critical to this System to maintain a group of contract staff to provide the necessary support to the existing application systems.

D. JUSTIFICATION

With the new START environment not scheduled for delivery until March 2000, maintenance of the current IDMS system is needed for the approximately 1,000 applications that run the various systems. The continued ability to maintain the present level of contract staff is imperative to insure that the System runs efficiently and without significant downtime. The current level of staff just meets the needs to keep the application programs running smoothly and to provide enhancements mandated by State and Federal legislation. Should a significant number of legislative changes occur, the current level of staff may need to be enhanced.

At the present time, although the focus for STRS as a whole is on the START development, the current IDMS system requires modifications to meet the changing needs of both our internal and external customers. Support from contractor staff has been able to provide the day to day maintenance and mandated changes required for the current system. Our internal customers

cannot guarantee that new changes will not be required over the next couple of years. It is necessary for STRS to insure that the level of support needed to make modifications is available when required. Our present level of contractor staff will be needed until the implementation of the new START system. The possibility that the March 2000 date may not be met requires money is budgeted to insure that current IDMS system support can be provided during the 1999/2000 fiscal year.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Pull Redirected Staff from the START Project

The risk here is the high degree of impact to the START project. If the START project is close to meeting the March 2000 implementation date, this could be a possibility. However, projects of this nature are usually in a crunch period when they are close to implementation to complete pieces and iron out integration issues that were not apparent as development took place. If the project date slips at all, the staff will still be in the development phase and could not be pulled for maintenance. STRS staff is responsible for 25,972 hours of application development. These issues, and the fact that staff will have been away from IDMS coding for four years, supports the position that contractor staff provides the preferred means to maintain the current IDMS system.

Hire Civil Service Limited Term Staff

The need is for only the one year. Past experience of hiring experienced and qualified COBOL, ADS/B, ADS/O programmers has been difficult. The complexity and uniqueness of STRS' IDMS environment and the reduced candidate pool that desires limited term appointment decreases the probability of successful recruitment.

Continue With Experienced Contract Programming Staff

To date, we have had a great deal of success maintaining the IDMS system with the current contractor staff. We have plans to retain this group of contractors through the next couple of years. To be assured that this can occur, the budgeted money needs to be in place to provide some guarantee that we can provide employment to these contractors through the 1999/2000 fiscal year. Contractors maintain their skill levels at a high level. The IDMS system is currently being supported with the limited number under contract. IT industry experts anticipate that experienced programmer rates may reach \$100 to \$150 per hour. It is necessary to lock in, to the extent we can, contractor staff for the 1999/2000 year before rates reach that level.

F. TIMETABLE

Contractor services will be used during the 1999/2000 fiscal year.

G. RECOMMENDATION

The recommended alternative is to continue with the experienced contract programming staff based on the following cost breakdown:

Contract Programmers (3.4 PY)	\$ 654,630.
Salary Savings (5 Associate Vacancies)	(\$ 276,630.)
FY 1999/00 BCP	\$ 378,000.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 8

TITLE:	Production Printer Replacement		
BRANCH/OFFICE:	Information & Financial Systems Branch Information Technology Services Division		
SUMMARY:	Three IBM model 3130 AFP printers are nearing the end of their five year life expectancy. Replacing these printers will ensure STRS' ability to meet its production printing needs without any downtime or other loss of productivity due to equipment failure.		
TOTAL POSITIONS:	-0-		
TOTAL COST:	\$73,000	(one-time funding)	

TITLE OF PROPOSED CHANGE:**Production Printer Replacement****A. NATURE OF REQUEST**

STRS employs 3 IBM Model 3130 AFP (Advanced Function Printing) printers in its production output services. These printers are nearing the end of their life expectancy and will need to be replaced in FY99/00.

B. BACKGROUND/HISTORY

In 1995 STRS purchased 3 IBM Model 3130 AFP printers to meet its report and statement generation needs. These printers receive output data streams from an IDMS database system resident on Teale Data Center's mainframes. Using these printers, STRS produces an average of 225,000 pages per month. These printers were purchased in 1995, and have an average life expectancy of 5 years. The reports and statements are for the benefit of STRS' members, their employers, and STRS' internal staff and management.

C. STATE LEVEL CONSIDERATIONS

IBM AFP printing technology is recognized as an industry standard in the mainframe-computing environment. State level consideration is not applicable.

D. JUSTIFICATION

STRS' dependency upon information technology (IT) has continued to grow over the past several years. The use of the State's consolidated data center (Teale) continues to be an important part of STRS' IT strategy. STRS is in the midst of a database conversion (START) that will extend STRS' use of Teale mainframe resources (and AFP technology) for the foreseeable future.

By having multiple high-speed printers on-site, STRS insures that it can meet its deadlines for timely reporting to its customers. The current total workload (225,000 pages per month) is not likely to decline in the near future. STRS' current printers cannot provide highlight color. Reports, letters and other correspondence to our customers could benefit from the addition of one highlight color (e.g., STRS logo in blue, negative balances in red, critical points highlighted in color). AFP technology is color-ready; STRS' printer hardware is not.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Maintain current equipment: this alternative will jeopardize STRS' ability to continue to successfully provide its customers with timely reports and statements. Furthermore, the current technology will not support the desired additional feature, highlight color.

Replace production printers: This alternative will ensure STRS' ability to meet its production printing needs without any downtime or other loss of productivity due to equipment failure, and with the added functionality of one highlight color.

F. TIMETABLE

July 1999: order new printers.

September 1999: install new printers.

October 1999: test and accept new printers.

G. RECOMMENDATION

The recommended alternative is to replace the existing production printers. The cost is estimated at \$73,000 during FY99/00. Completion is projected by November, 1999.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 9A

TITLE:	Enterprise LAN Infrastructure STRSNet HVAC Power	
BRANCH/OFFICE:	Information & Financial Systems Branch Information Technology Services Division	
SUMMARY:	Two Liebert air conditioning units and one Liebert Datawave power conditioner are nearly 15 years old and need to be replaced. This equipment controls the room environment for file servers, printers, routers, and wiring hubs.	
TOTAL POSITIONS:	-0-	
TOTAL COST:	\$82,000	(one-time funding)

Budget Change Proposal # 9
Enterprise LAN Infrastructure
FY 1999/00

TITLE	One-Time Augmentation
A. STRSNet HVAC/Power	\$ 82,000.
B. STRSNet Router Upgrade	\$ 28,000.
C. STRSNet Client/Server Development Tools	\$ 30,000.
Totals	\$140,000.

TITLE OF PROPOSED CHANGE:

STRSNet HVAC/Power

A. NATURE OF REQUEST

STRS' Enterprise LAN (STRSNet) has become a mission-critical resource. STRSNet is comprised of file servers, printers, routers, and wiring hubs that are housed in the STRSNet Server Room. The power conditioning and air conditioning equipment (HVAC) is over 15 years old. Maintenance costs and operational costs for this equipment have risen over time, and the equipment is nearing obsolescence. STRS' ability to conduct its day-to-day business, including investment management and member benefit processing, would be jeopardized if this equipment were to fail.

B. BACKGROUND/HISTORY

In 1984, STRS purchased and moved into its current headquarters. At that time, power and air conditioning equipment was brought from STRS' previous leased site. Two Liebert HVAC units (6-ton and 10-ton output, respectively) and one Liebert Datawave power conditioner have been used to support STRS' raised floor area for nearly 15 years. While STRS no longer owns or maintains any mainframe-level equipment, the ascent of the Enterprise LAN environment has extended the need to maintain environmental controls within the STRSNet Server Room.

STRSNet provides mission-critical services throughout STRS, including:

- Access to Teale Data Center (TDC) for STRS' departmental databases (IDMS, ADABAS);
- Access to TDC for departmental email (OfficeVision/VM);
- Access to the Internet, and to STRS' Intranet, via TDC's CSGNet subscriptions;
- Connectivity with STRS' satellite office via TDC's CSGNet subscription;
- Access to departmental LAN file and application servers for all STRSNet-connected staff.
- Access to STRS' investment partners nationwide (e.g., State Street Bank, Solomon Brothers).

In the near future, STRSNet will be providing additional services (e.g., LAN-based email, workflow/imaging, Web-enabled applications) that require a stable, dependable infrastructure.

C. STATE LEVEL CONSIDERATIONS

There are no State level considerations.

D. JUSTIFICATION

In STRS' Business Plan and in its Information Technology Strategic Plan, STRSNet is identified as a strategic and tactical project. STRSNet is critical in the support of STRS' Benefits and Services Delivery Plan. STRSNet's reliability and dependability rely on clean power and a controlled environment.

Power and air conditioning equipment life expectancies average 10 years or more. Replacing the obsolete existing equipment will ensure the long-term viability of the STRSNet Server Room

facility. Maintenance and operational costs of the current equipment are rising, and replacement parts are becoming scarce. The estimated cost of replacement (\$82,000) includes all equipment components, all installation costs and all structural or electrical changes required to support the new equipment.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Do Nothing

Maintain the current equipment as long as possible. This alternative does not meet the requirement for dependable power and air conditioning over the long term. Current maintenance and operational costs are considerably higher than those on new equipment are.

Replace Current Equipment

This alternative meets the requirement for long-term, dependable power and air conditioning for STRSNet components.

F. TIMETABLE

July, 1999: order new equipment;

September, 1999: install new equipment.

G. RECOMMENDATION

The recommended alternative is to purchase replacement power and air conditioning equipment. The cost is estimated at \$82,000 during FY 1999-00.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 9B

TITLE:	Enterprise LAN Infrastructure STRSNet Router Upgrade		
BRANCH/OFFICE:	Information & Financial Systems Branch Information Technology Services Division		
SUMMARY:	The primary router for the Enterprise LAN is not Year 2000 compliant and needs to be replaced. The manufacturer (Cisco) has notified STRS that this equipment will not be supported or maintained past December 1999.		
TOTAL POSITIONS:	-0-		
TOTAL COST:	\$28,000	(one-time funding)	

Budget Change Proposal # 9
Enterprise LAN Infrastructure
FY 1999/00

TITLE	One-Time Augmentation
A. STRSNet HVAC/Power	\$ 82,000.
B. STRSNet Router Upgrade	\$ 28,000.
C. STRSNet Client/Server Development Tools	\$ 30,000.
Totals	\$140,000.

TITLE OF PROPOSED CHANGE:

STRSNet Router Upgrade

A. NATURE OF REQUEST

STRS' Enterprise LAN (STRSNet) has become a mission-critical resource. STRSNet is comprised of file servers, printers, routers, and wiring hubs that populate the STRSNet Server Room. The primary router (Cisco Model AGS+) is not Year 2000 certified by Cisco. Furthermore, Cisco has notified STRS that this equipment will not be supported or maintained past December 1999. STRS needs to replace this equipment prior to December 1999.

B. BACKGROUND/HISTORY

STRSNet provides mission-critical services throughout STRS, including:

1. Access to Teale Data Center (TDC) for STRS' departmental databases (IDMS, ADABAS);
2. Access to TDC for departmental email (OfficeVision/VM);
3. Access to the Internet, and to STRS' Intranet, via TDC's CSGNet subscriptions;
4. Connectivity with STRS' satellite office via TDC's CSGNet subscription;
5. Access to departmental LAN file and application servers for all STRSNet-connected staff.

In the near future, STRSNet will be providing additional services that require a stable, dependable infrastructure (e.g., LAN-based email, workflow/imaging, Web-enabled applications). Most of the current services (and all of the future ones) require routed TCP/IP connectivity through TDC. CSGNet subscribers are limited by TDC to using only Cisco brand routers in order to maximize TDC's network support and troubleshooting.

C. STATE LEVEL CONSIDERATIONS

STRS utilizes the State's consolidated data center, TDC, for mainframe computing, Wide Area Networking, and Internet access. Continued use of TDC's CSGNet requires a Year 2000-compliant, fully maintained Cisco router.

D. JUSTIFICATION

In STRS' Business Plan and in its Information Technology Strategic Plan, STRSNet is identified as a strategic and tactical project. STRSNet is critical in the support of STRS' Benefits and Services Delivery Plan. STRSNet reliability and dependability rely on current, fully maintained infrastructure components.

Router equipment life expectancies average 5 years or more. Replacing the obsolete existing equipment will ensure the long-term viability of the STRSNet. Maintenance and operational costs of the current equipment are rising, and replacement parts will not be available from the manufacturer after December 1999. The estimated cost of replacement (\$28,000) includes all equipment components, all installation costs and all structural or electrical changes required to support the new equipment.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Do Nothing

Maintain the current equipment as long as possible. This alternative does not meet the requirement for dependable infrastructure components after December 1999. Current maintenance costs are considerably higher than those new equipment are.

Replace Current Equipment

This alternative meets the requirement for long-term, dependable router functionality for STRSNet.

F. TIMETABLE

July, 1999: order new equipment;

September 1999: install new equipment.

G. RECOMMENDATION

The recommended alternative is to purchase a replacement Cisco router. The cost is estimated at \$28,000 during FY 1999-00.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 9C

TITLE: Enterprise LAN Infrastructure
STRSNet Client/Server Development Tools

BRANCH/OFFICE: Information & Financial Systems Branch
Information Technology Services Division

SUMMARY: The installation of the Local Area Network (STRSNet) within STRS will be completed in 1998. In order to enhance STRSNet to provide additional capabilities to employees, software must be acquired. The software will support the development of such LAN based applications as procurement document routing and approval, and legislative bill analysis.

TOTAL POSITIONS: -0-

TOTAL COST: \$30,000 (one-time funding)

Budget Change Proposal # 9
Enterprise LAN Infrastructure
FY 1999/00

TITLE	One-Time Augmentation
A. STRSNet HVAC/Power	\$ 82,000.
B. STRSNet Router Upgrade	\$ 28,000.
C. STRSNet Client/Server Development Tools	\$ 30,000.
Totals	\$140,000.

TITLE OF PROPOSED CHANGE:

STRSNet Client/Server Development Tools

A. NATURE OF REQUEST

STRS' Enterprise LAN (STRSNet) provides the departmental infrastructure necessary to implement Web-enabled applications for internal use. The advent of this client server platform requires the purchase of software development tools specific for this environment. STRS has identified several administrative functions that would benefit from Intranet access. These functions include internal procurement document routing and approval, and legislative bill analysis.

B. BACKGROUND/HISTORY

In 1998, STRS will complete the implementation of STRSNet. STRSNet currently provides the following services:

1. Access to Teale Data Center (TDC) for STRS' departmental databases (IDMS, ADABAS);
2. Access to TDC for departmental email (OfficeVision/VM);
3. Access to the Internet, and to STRS' Intranet, via TDC's CSGNet subscriptions;
4. Connectivity with STRS' satellite office via TDC's CSGNet subscription;
5. Access to departmental LAN file and application servers for all STRSNet-connected staff.

STRSNet will also provide the infrastructure required to implement Web-enabled applications within STRS (e.g., Intranet-based workflow). While STRS is evaluating traditional workflow technologies as well, the Intranet-based technologies are readily available, have been tested by other State agencies, and are cheaper to implement.

Historically, STRS has performed its software development activities on mainframe computers located at TDC. Staff at TDC maintains mainframe software development tools, but does not offer access to client/server development tools.

Internal procurement document routing and approval is currently a manual workflow. All such documents originate at the working unit or division levels, and all finally collect in the Business Services unit for final processing. Use of Web-enabled technologies to route these documents through the organization would provide efficiencies of time and effort.

STRS' legislative bill analysis is coordinated manually among all affected divisions. STRS has identified a need for an Intranet application to automate this process. There are no tools to support the development of this application.

Finally, STRS implemented a Web Page, which has been well received by employers. It is anticipated that more features will be added to the Web Page, including the sharing of information contained in client/server databases.

C. STATE LEVEL CONSIDERATIONS

Not applicable.

D. JUSTIFICATION

STRS does not have software development tools for its client/server environment. By purchasing development tools for the client/server platform, STRS will be positioned to reduce development costs for those applications more suited for the client/server architecture. In addition, STRS will be able to investigate cost-effective technologies such as using JAVA to build Internet/Intranet applications. Finally, the provision of Web-enabled applications is a key strategy for STRS, as detailed in its Information Technology Strategic Plan.

The development tools for the client/server environment would support the creation of the Intranet application for the Legislative Bill process. It is anticipated that after STRS staff have been connected to STRSNet, additional requests will be received to share information across divisions. To satisfy these requests, development tools will be required. The estimated cost of a development server and the necessary software tools is \$30,000. The estimated cost includes all equipment components, all installation costs and all structural or electrical changes required to support the new equipment.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Do nothing

This is not a viable option, as it does not meet the needs of our customers. A need has been identified to develop an Intranet application on the client/server platform. In addition, the department already has a Web Page on the Internet and would likely have requests for applications to feed into this. Finally, in order to develop applications to utilize the Internet the proper tools would need to be available.

Continue all development on the mainframe

This solution does not take advantage of the reduced costs of development on STRSNet or website developments.

Purchase client/server development tools

This option is the most viable as it enables STRS to meet its customers' needs and reduce the cost associated with application development. In addition, a toolkit provides a standard development methodology and will be utilized by all client/server application developers.

F. TIMETABLE AND RECOMMENDATION

The recommended alternative is to purchase the Client/Server Development Tools. The cost is estimated at \$30,000 during FY1999/00.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 10

TITLE:	Establish Six Program Technician Positions To Support Increased Workload And Meet Production Objectives		
BRANCH/OFFICE:	Information & Financial Systems Branch Membership Division		
SUMMARY:	This BCP requests funding for five Program Technician II's and one Program Technician III. Staff of the Membership Division primarily monitor member creditable service and compensation data as reported by county Offices of Education. They also audit and process retirement contribution statistical data. Workload has increased for several reasons: increased membership; shortened processing timelines; increased number and complexity of laws regarding member qualification, member creditable service, and member compensation. These positions will augment existing staff to meet production goals.		
TOTAL POSITIONS:	6.0		
TOTAL COST:	\$350,200	(\$285,500 permanent funding) (\$ 64,700 one-time funding)	

TITLE OF PROPOSED CHANGE:

Establish Six Program Technician Positions

A. NATURE OF REQUEST

This request is to add five permanent full-time Program Technician II's and one Program Technician III positions in the Reporting Section of the Membership Division to improve the level of service to STRS employers; members, and beneficiaries; to meet the Board adopted Service Retirement goal of finalizing 90% of cases within four months of the retirement effective date; reduce the backlog of account discrepancies, keep up with the increase in workload generated by growth in membership, greater variety of special programs and reporting requirements, and the increased complexity of membership qualification, and crediting of service and contribution as a result of recent legislation.

B. BACKGROUND/HISTORY

The Membership Division provides services throughout the school year to all public school employees who perform STRS creditable service as well as to the many internal customers such as Service Retirement, Disability, Survivor Benefits, Refunds and the Public Service Office.

The staff in the Reporting Section are responsible for monitoring members' service to determine eligibility for membership; processing elections into membership; making determinations regarding creditable service and compensation, eligibility to participate in special programs; auditing and processing the Monthly Report of Retirement Contributions received each month by all County Offices of Education; analyzing and notifying the employers of corrections that must be made to previously reported member account identity data and member service, compensation or contribution information; and monitoring to ensure the requested adjustments are submitted on subsequent reports; research and resolve discrepancies in members' account data, and calculate receivables for underpaid contributions and refunds of overpaid contributions.

The work performed by the Reporting Section is essential to determining a member's eligibility to receive a benefit and the information necessary to calculate a monthly benefit payable from the Defined Benefit Plan. The information includes the member's age, service credit, compensation earnable for final compensation, contributions and interest credited to the member's account. A significant component of the workload for the finalization of benefits is a manual effort staff must perform to ensure the accuracy of appended data.

In 1984, eleven (11) positions were eliminated from the Membership Division to generate savings to develop an on-line information system leaving a staff of sixteen (16) Program Technicians to process 200,000 exceptions from four (4) million lines of data reported. During the past thirteen (13) years contribution report lines have increased by 56%, or 6.2 million lines and the number of exceptions increased by 310% or 620,000 during the 1996/97 year which the Reporting Section staff must audit, correct or request correction from employers on subsequent monthly reports.

Although the majority of the information required to pay a benefit is processed, analyzed and corrected by Reporting Section staff, there has been no increase in the staffing level since the eleven (11) positions were eliminated in 1984 to address the increased workload, shortened

timelines for finalizing benefits and increased complexity of the laws regarding membership qualification, creditable service and compensation. The continued increase in the number of lines of data that fail the automated information system edits each year surpasses the number that can be cleared with existing staff thereby corrupting the information on the data base replacing automated benefit processing with manual processing.

C. STATE LEVEL CONSIDERATIONS

N/A

D. JUSTIFICATION

The current level of staffing in the Reporting Section is only two-thirds of the level of staffing thirteen (13) years ago despite a 56% increase in the number of contribution lines that were reported during 1996/97 and a 310% increase in the number of exceptions. The number of new members increased dramatically during the 1996/97 year by 64%, or approximately 40,000 new members.

In addition to the impact from the immense growth in workload, the time required to perform routine duties has increased because of the provisions of the Defined Benefit Plan administered by the Membership Division have become more complicated through legislative changes such as the implementation of the Cash Balance plan, creation and expansion of charter schools, the class size reduction program, and the requirement for the employers to report member substitute and part-time service with annualized pay rates. The greater complexity of the plan provisions has impacted staff by increasing the time for analysis in making administrative decisions and training employers, and has required modification to the reporting system code structure and edits, which has increased the error rates in reporting. The Membership Division has also taken on increased responsibility for the division of member accounts in the event of dissolution of marriage.

To meet STRS goals for the continuous improvement in the delivery and services to our clientele the Reporting Section had to change the focus of how the work was previously done to an emphasis placed on benefit case processing. The highest priority cases are Service Retirement, followed by Disability, Survivor Benefits, refunds, etc. By implementing the priority system for correcting exceptions in the early 1990's, many tasks both routine and critical could no longer adequately be processed by the Reporting Section. For example, monitoring active members' service to determine eligibility for membership, making determinations of creditable service and creditable compensation, determining eligibility to participate in special programs and processing community property divisions have backlogged.

Concentrating our efforts on benefit case processing has decreased the amount of time staff have to thoroughly audit and process the Monthly Reports of Retirement Contributions. Therefore, there is less time available to notify employers of corrections that must be made to previously reported statistical and contribution information for active member accounts. The inability to correct current year exceptions for active accounts has caused incorrect or misreported information to append to the on-line information system. This change has resulted in a shift from correcting information appended to the data base to one of addressing discrepant data resident on the data base years later at the time of retirement, disability or death, increasing the manual effort required to correct each account.

This request to augment the staffing level by five (5) Program Technician II's and one Program Technician III is critical in order for the Reporting Section to have sufficient resources to correct exceptions and restore the integrity of the data base for active member accounts to ensure automated, timely and accurate benefit processing at the time of retirement, disability or death, or payment of a refund.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

- 1) Augment the Reporting Section Staff by five (5) Program Technician II's and one (1) Program technician III.

By increasing the current level of staff by five (5) Program Technician II's and one (1) Program Technician III the Reporting Section would be able to correct the reporting exceptions for the accounts of both those members applying for benefits and those in active status.

In the early 1990's the Reporting Section, in response to an increasing workload, changed the priority for clearing exceptions. The highest priority was given to Service Retirement cases, followed by Disability cases, Survivor Benefit cases, etc. This change resulted in the Section's inability to clear the exceptions for active member accounts. Consequently, the remaining and incoming exceptions for active members are not resolved until the members apply for Service retirement, Disability, Survivor benefits, etc. Unfortunately this change to priority case processing has shifted the focus from correcting information appended to the data base to one of addressing discrepant data resident on the data base years later, increasing the manual effort required to correct each account.

With the additional staff it is anticipated that the Reporting Section will not only be able to correct benefit case exceptions but will also be able to correct the accounts of active members on current monthly reports. With the staff augmentation the number of counties assigned to each technician will be reduced providing sufficient resources to correct exceptions for active member accounts which will assure timely and accurate benefit processing at the time of Service Retirement, Disability or death or payment of a refund.

Although there is a long-term goal to develop a new, more flexible Reporting System with fewer data fields and less complicated data editing, the plan is not feasible at the present time and will take a considerable number of years to develop and implement. The START Project, an information system effort to move the IDMS platform to a more easily programmed language Natural/ADABAS platform, will only change the platform and will provide no new processing efficiencies for the Membership Division.

- 2) No augmentation of staff

With the current level of staffing, sixteen (16) Program Technician II's, the Reporting Section will continue to be unable to correct all the exception lines reported each year. Each month staff will continue to concentrate their efforts on clearing the highest priority exception cases for Service Retirement with little time remaining each month to complete other section work. The Service Retirement Division's Board adopted goal is to finalize 90% of payments within four months of the retirement date. As most members apply for Service Retirement in June of each year, the Reporting Section's workload during the "peak season,"

the months of September, October and November, is nearly dedicated to clearing retirement case exceptions.

With no staff augmentation, the focus will remain on Service retirement cases and staff will continue to be unable to correct other priority case and active member exceptions which will only be resolved on a case by case basis. Continued corruption of the information residing on the data base will result by not having sufficient time for staff to correct active case exceptions.

F. TIMETABLE

June 1999 – Recruit candidates for five (5) Program Technician II's and one (1) Program Technician III positions

July 1999 - Fill the six positions

G. RECOMMENDATION

Implement Alternative # 1.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 11

TITLE:	Augment Funding for the Annual Statement of Account		
BRANCH/OFFICE:	Information & Financial Systems Branch Membership Division		
SUMMARY:	Approximately 450,000 annual statements of account are printed every year. STRS plans to substantially change the format of the statement. The two sided legal size statement will be replaced with a tri-fold statement. It will display more information and be printed in larger type.		
TOTAL POSITIONS:	-0-		
TOTAL COST:	\$57,000	(permanent funding)	

TITLE OF PROPOSED CHANGE:

Provide Additional Funding for the Printing of the Annual Statement of Account

A. NATURE OF REQUEST

The purpose is to change the format of the annual statement of account to provide more space for plan information due to the proposed enhancements and changes to the STRS Defined Benefit program. This request is to augment printing of the Annual Statements in the Membership Division 1999/2000 fiscal year budget. STRS is not staffed to develop, produce and mail 450,000 annual statements, within the acceptable timeframes as expected by our clients.

B. BACKGROUND/HISTORY

The Annual Statement of Account is required by Section 22309 of the Education Code, for the purpose of informing members of their service credit and contributions and interest balances as of June 30 of the immediately preceding fiscal year. It also provides other valuable Defined Benefit plan information to the member, including the identification of any current designated beneficiary (ies) and the member's coverage for disability and survivor benefits. If the member is age 50 or older, the statement may provide an estimate of the member's future unmodified service retirement allowance.

An Annual Statement of Account is mailed to every active and inactive member of the system, provided a current address is on STRS database. If an address is not available, the statement is sent to the employer for forwarding to the employee.

C. STATE LEVEL CONSIDERATIONS

N/A

D. JUSTIFICATION

Education Code Section 22309 requires STRS to issue a Statement of Account to each active and inactive member following the end of each school year. These statements are mailed to the home address of each member regardless of status (active or inactive) if the member had a current address on the STRS database.

The current format of the annual statement has no space available for any additional plan information. The current font used is small, rendering the information to be difficult to read. The amounts presently allocated for printing are not adequate to produce an annual statement that provides a legitimate level of information to the membership, given the proposed changes and enhancements to the Defined Benefit Plan. The system has a statutory as well as ethical requirement to provide an appropriate level of information to a clientele that is required by law to be members of this system. Members of this system have the right to be able to make informed decisions as they relate to matters of pension benefits. Consequently the system has an obligation to provide the membership with enough information to make informed decisions.

If this proposed change is not adopted, it can lead to a number of adverse selections by members that will create a significant workload related to administration of plan provisions. Because the plan provisions are set by statute when a member makes an uninformed decision, the process used to ameliorate the choice can be expensive and will lead to degradation in the level of service provided to the membership. The annual statement of account is the system's single most important tool to eliminate adverse selections by members. The annual statement information is member specific, and when used in conjunction with other information programs such as the Regional Counseling Service (RCS) can greatly assist members in making an informed decision regarding benefit programs.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

- 1) Augment the Membership Division allocation for Printing by \$57,000 for printing of the 1999-2000 Annual Statements of Account to all active and inactive members.

This alternative would permit STRS to meet its statutory and ethical obligation to issue an Annual Statement of Account that includes an appropriate level of information related to the STRS Defined Benefit Plan. This alternative also permits the System to continue to use the competitive bid process to obtain services of a vendor who specialized in customized forms.

- 2) Continue with current format. The current design specifications are familiar to our clients and STRS staff.

This alternative does not provide space for additional plan information, without significantly altering the font size, which would increase the difficulty of the document's readability. Moreover, as stated earlier this alternative may lead to a significant increase in adverse selections by members due to a lack of information regarding the DB plan.

- 3) Print the statement using in-house personnel and equipment.

This is not a viable alternative, STRS is not staffed to develop, produce and mail 450,000 annual statements, within the acceptable timeframes as expected by our clients.

F. TIMETABLE

July 1999 – Increase Allocations for Printing

October 1999 - Mail the Annual Statements of Account in accordance with the Annual Update Project Plan schedule.

G. RECOMMENDATION

Implement Alternative #1.

Change the statement form, to a road-map design. Z-folded to form three 8 ½ x 10 ½ panels. This format allows us the flexibility to produce an expanded statement. Using this form will provide:

- Larger print for better readability
- Space for the Mid-career information
- More information on alternative plans

1999-00 BUDGET CHANGE PROPOSALS
BCP # 12

TITLE: Establish One Position In Support of STRS Marketing Effort

BRANCH/OFFICE: Governmental Affairs and Program Development Branch
Public Affairs Office

SUMMARY: This BCP requests funding for a new Staff Services Manager I position. This position will be used to enhance marketing of the Cash Balance Plan, and to develop and implement marketing plans for the 403(b) Deferred Compensation Plan. Because these two plans are optional, STRS competes directly in the marketplace with established private companies offering retirement benefits. Also the duties of this new position include marketing any new benefit increases approved by the Teachers' Retirement Board.

TOTAL POSITIONS: 1.0

TOTAL COST: \$92,700 (\$79,200 permanent funding)
(\$13,500 one-time funding)

TITLE OF PROPOSED CHANGE:

Establish One Position In Support of STRS Marketing Effort

A. NATURE OF REQUEST

The State Teachers' Retirement System (STRS) vision statement is “STRS is committed to lifetime security and service that meets the changing needs of California’s educators”. STRS currently offers a Defined Benefit (DB) Plan and a Cash Balance (CB) Plan to meet the retirement needs of educators. The DB Plan serves approximately 518,000 active and retired members and was designed for the full-time teacher. The CB Plan was designed for part-time employees hired to work less than half-time. In addition, STRS offers members an opportunity to augment their retirement by participating in the CALSTRS 403(b) program, which is a deferred compensation program run by a third-party administrator. The person in this position would assist in the marketing of the CB Plan and CALSTRS 403(b) plan.

The current retirement plans provide a level of financial security, which includes disability and survivor benefit coverage. As a means of enhancing current retirement plans and addressing the changing needs of the STRS membership, STRS contracted with Mercer, Inc. to assist staff in assessing whether optional supplemental benefits should be provided to the membership. Input was obtained from school districts, constituent groups, and both active and retired members. A market analysis was also conducted. New benefits expected to be assigned for development include health benefit, dental, and vision plans for STRS retirees. The person in this position would be assigned to develop and implement marketing plans, contractual agreements and education strategies to target eligible participants for enrollment.

The TRB is also considering potential benefit increases in the STRS DB plan because of gains in the System’s funding status. A new benefit that may be assigned for development is a Deferred Retirement Option Plan (DROP), which would give STRS members the ability to take part of their retirement income as a lump sum rather than a monthly benefit. The person in this position would be assigned to develop and implement marketing plans, education and communication materials and strategies to target eligible participants for enrollment.

The staffing resource of one Staff Services Manager I is not adequate to successfully market the existing and expected new programs. There are 577,000 active/inactive members and benefit recipients and 1,100 school districts statewide. It is estimated that the eligible population for the CB Plan is 96,000. STRS has targeted 18 counties and three independent districts for marketing with a total eligible population of about 24,000. Thus, staff resources have enabled personal contact with only a fraction of the potential membership. Adding new benefit programs will exacerbate this staffing resource shortage.

B. BACKGROUND/HISTORY

Since 1991, federal law has required that Social Security or a qualified retirement plan cover part-time employees. The STRS CB Plan, which went into effect on July 1, 1996, has been designed specifically for part-time and substitute educators working for a participating employer. The STRS CB Plan is optional to school districts, community college districts, or county offices of education as a cost-effective alternative retirement plan. Employers must formally act to offer the CB Plan. STRS directly competes in the marketplace with established private companies offering retirement benefits.

The CalSTRS 403(b) program is a tax-deferred supplemental savings program that complements the STRS DB and CB Plans. All STRS participants are eligible to select from a menu of high-quality investment options. A major advantage for participants is that fees for the program are lower than industry standards.

The Teachers' Retirement Board (TRB) co-sponsored Assembly Bill 2648 (Karnette) with the California Teachers' Association in 1994 which would have required STRS to conduct a study to determine the feasibility of the System to offer certain optional supplemental benefits that members could elect to purchase. While the bill passed the Legislature, it was subsequently vetoed. The veto message expressed concern about the lack of assurance that the Teachers' Retirement Fund would be fully reimbursed for the cost of the study. The TRB then agreed to undertake the study using its own resources.

Also, at the March 5, 1998 TRB meeting, the STRS Consulting Actuary presented the findings of the 6/30/97 valuation of the Defined Benefit (DB) plan. Among the findings in the valuation report, was that the TRF was 97.3 percent funded with only a three year amortization period remaining for the unfunded obligation. As a result of this gain in the System's funded status, the TRB is considering potential benefit increases.

C. STATE LEVEL CONSIDERATIONS

This BCP is:

- In accordance with STRS' goals and objectives to expand and improve upon benefits, continuously improve the delivery of benefits and services with available funding, and research and apply information technology which meets or exceeds internal and external needs.
- In agreement with STRS' GAPD Branch mission, "Through leadership, build the foundation for STRS to be recognized as an innovative and responsive provider of benefits and services to all stakeholders."

- Consistent with the TRB's recent comprehensive review of the current Defined Benefit (DB) Plan and the adequacy levels of those benefits at their April 2, 1998 and May 7, 1998 meetings. The TRB approved at their June 3, 1998 Funding and Benefit Workshop staff's recommendation to pursue benefit enhancements for members of the system. Marketing new benefits for members is an integral part of that commitment.

In addition, the California Pension Protection Act (Proposition 162) grants the TRB plenary authority over administrative decisions of the system in a manner that will assure prompt delivery of benefits and related services to members and their beneficiaries.

There is no impact on other state departments

D. JUSTIFICATION

This proposal would support the STRS Vision statement of lifetime security and service that meets the changing needs of California's educators and the STRS Goal of providing the maximum level of benefits and services within available funding.

However, successfully making the optional programs available to the STRS membership involves a personal staff contact strategy with County offices of Education, District Offices of Education, potential participants, and Employee/Employer Organizations. Through meetings, workshops, and other presentations, staff is able to effectively promote and enroll participants into optional programs.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Continue with existing staff resource:

- would continue to be able to make personal contact with a fraction of the eligible employer and participants
- would only market some and not all available benefits;
- would be able to create and revise program material less frequently;
- the eligible program participants would continue to not have equal access to the available programs

This is contrary to the TRB's direction to enhance benefit options for members, STRS and Public Affairs Division's vision and mission, and the program objective.

Alternative 2: Establish an additional Staff Services Manager I position for the development and marketing of new employee benefits:

- the augmentation of one SSM I would enable STRS to increase its personal contacts for the marketing of new employee benefits to a more acceptable level. It would also enable the provision of more equal access to the new employee benefits.

Alternative 3: Use a private company to act as a broker for new employee benefits:

- a broker would not be in a position to sell STRS new employee benefits exclusively, but would offer them in combination with other alternative plans.

Using a private company is not a viable option at this time.

F. TIMETABLE

Implement July 1, 1999.

G. RECOMMENDATION

Alternative 2: Establish one permanent, full-time Staff Services Manager I position within the Public Affairs Division effective July 1, 1999.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 13

TITLE: Provide Permanent Funding For The Cash Balance Plan

BRANCH/OFFICE: Governmental Affairs and Program Development Branch
Planning & Research Office
Public Affairs Office

SUMMARY: The Cash Balance Fund is currently funded by a \$1 million loan from the Teachers' Retirement Fund (TRF). This money will be depleted by June 30, 1999 and there is insufficient resources to continue the operation of the Fund as initially envisioned by the enabling legislation. Two positions are affected. At the June 5, 1998 Teachers' Retirement Board meeting, decisions were reached that continued the Cash Balance Program and merged its funding into the TRF. This BCP documents the TRF funding for the Cash Balance Program.

TOTAL POSITIONS: -0-

TOTAL COST: \$133,600 (permanent funding)

TITLE OF PROPOSED CHANGE:

Provide Permanent Funding For the Cash Balance Plan

A. NATURE OF REQUEST

The goals of the Teachers' Retirement Board (TRB), the State Teachers' Retirement System (STRS), Business Plan, and the Governmental Affairs and Program Development (GAPD) Branch are consistent in expressing a commitment to provide a financially sound retirement system with a continuous improvement in the level and timeliness of benefits and services within available funding.

STRS currently offers a Cash Balance (CB) Plan to meet the retirement needs of educators. The CB Plan was designed for part-time employees hired to work less than half time. STRS requires a Teachers' Retirement Fund (TRF) appropriation to permanently fund two existing positions that assist with the administration of the STRS CB Plan. The CB Plan was established in 1996 and is administered by the Teachers' Retirement Board (TRB) as set forth in Part 14 of the Teachers' Retirement Law (TRL). The TRB established an expense account to fund all administrative costs of the TRB and the System including support staff. Currently, there are sufficient funds in the expense account to provide salary, benefits and operating expenses for one Management Services Technician (MST) and one Staff Services Manager (SSMI) through June 30, 1999. Effective July 1, 1999, these funds will be depleted and the TRB will need to identify other support resources to administer the CB Plan. The MST and SSM I are civil service employees, and although they would not lose their permanent status as civil service employees within the organization, they would lose their current CB Plan assignment. Ultimately, these two employees would be redirected to another program within the System. Losing these two positions would have an adverse affect on the levels of service provided, and on-going maintenance needed for the success of the CB program.

The MST works under the direction of the Manager, Planning and Research Office (PRO), Technology Unit within the Legislation, Planning and Research Division (LRPD), and acts as the liaison to county and district personnel during the implementation phase, handles employer reporting technical issues, provides technical expertise at employer workshops, develops correspondence, and assists with the development of the CB Plan database. The SSM I works in the Marketing Unit within the Public Affairs Division, and develops marketing plans, contractual agreements, education strategies and communication materials to inform employers about features of the plan, and to target participants for enrollment.

B. BACKGROUND/HISTORY

Chapter 592, Statutes of 1996 (AB-1298, Ducheney, et al), which became effective July 1, 1996, authorized STRS to establish a Cash Balance retirement program. The program is to be administered by STRS for part-time public school employees, which employers may elect to provide for persons employed less than half-time at a contribution rate that is lower than Social Security tax.

With the establishment of the new CB retirement program, additional staff resources were authorized by the TRB to administer the plan. In October of 1995, a CB Plan unit was formed, which was comprised of one Career Executive Assignment, Level II (CEA II), one Staff Services Manager I (SSM I), two Associate Governmental Program Analysts (AGPAs), one Assistant Information Systems Analyst (AISA), and one Office Technician (OT). As the plan evolved from the implementation phase to the operational phase, the staffing needs significantly changed. In July of 1996, the ASIA position was downgraded to the MST level to provide technical assistance in the reporting aspect of the program and assist employers accordingly.

Initially the CB Plan was placed under the direction of the New Products Division (NPD), as it was formerly called, which reported directly to the Chief Executive Officer. In October of 1997, the NPD including the CB Plan was redirected to the GAPD Branch. In April 1998, the GAPD Branch reorganized again to balance the distribution of tasks, which essentially absorbed the NPD with existing operations, and staff were repositioned accordingly. The marketing aspect of the CB Plan including the SSM I position was placed under the direction of the Public Affairs Division, and the PRO absorbed the CB Plan and New Products Development operations. The MST was repositioned under the management of the Technology Support Unit within PRO to act as a liaison between the County/District personnel and STRS in support of the CB Plan operation.

C. STATE LEVEL CONSIDERATIONS

This BCP is:

- In accordance with STRS' goals, objectives, business plans, and policies to expand and improve upon benefits, continuously improve the delivery of benefits and services; maximize the level of benefits and services within available funding; and research and apply information technology that meets or exceeds internal and external customer needs.
- In agreement with STRS' GAPD Branch mission to "Through leadership, build the foundation for STRS to be recognized as an innovative and responsive provider of benefits and services to all stakeholders."
- In accordance with Part 14 of the TRL (STRS CB Plan provisions)

In addition, the California Pension Protection Act (Proposition 162) grants the TRB plenary authority over administrative decisions of the System in a manner that will assure prompt delivery of benefits and related services to members and their beneficiaries.

There is no impact on other state departments.

D. JUSTIFICATION

This proposal would support the STRS vision statement to commit to lifetime security and service that meets the changing needs of California's educators. It is STRS goal to continuously improve the delivery of benefits and services, provide a maximum level of benefits and services within available funding supported by an organizational environment that is professional, productive and innovative. Establishing permanent funding for the existing MST in PRO and the SSM I in the Public Affairs Division (PAD) is integral to accomplishing that commitment.

Specifically, these staff are experienced with the CB Plan operations and are necessary to maintain the continued service levels on behalf of part-time educators and their employers, as required by Part 14 of the TRL.

In addition to the two positions that require permanent funding and the subject of this Budget Change Proposal (BCP), another BCP to establish a Program Technician II level position effective July 1, 1999 will also go before the TRB for their approval. However, with the increase in employer participation, disbursement of benefits and other reporting functions, additional resources are needed to handle the additional workload in the 1998/99 fiscal year. Arrangements have been made to temporarily redirect a PT II level position to accommodate the current workload needs of the plan until the BCP becomes effective, July 1, 1999.

The MST and SSM I positions are essential for STRS to continue administering the CB Plan operations. The MST acts as the key liaison between county and district personnel and STRS to resolve reporting and other technical issues as it relates to the plan for 15 employers. The MST also provides employers with technical expertise at workshops, and assists with the development and maintenance of the CB Plan database. During the period of January through June of this year, the plan participant base grew 118%, and STRS expects continued growth in participation levels. On the marketing side, the SSM I continues to coordinate and market the CB Plan to employers. This includes assisting employers with contractual agreements for participation in the plan. Failure to establish permanent funding would result in the GAPD Branch losing these positions, which would have a negative impact on the current level of services, plan operations and overall success of the CB Plan.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Use existing resources without establishing permanent funding:

As of June 30, 1999, the current funding for the MST and the SSM I will be depleted. If permanent funding is not established for these two positions, the positions will no longer exist and the civil service staff currently appointed to these positions would be redirected to another Branch within the System. The maintenance of the existing workload would fall on existing staff, which would result in:

Reporting Function:

- Employers not receiving the level of customer service that is necessary to successfully fully implement and maintain the CB Plan;
- The inability to correct reporting errors that could compromise the integrity of employer and employee data in a timely manner; and
- A decline in workshops that are necessary for assisting employers on the technical aspects of the CB Plan.

Marketing Function:

- May not be able to make personal contact with eligible employers and participants, or would continue to make personal contact with only a fraction of clientele;
- Marketing efforts would be grossly limited; and
- May not be able to revise program material that is consistent with changes in the plan, statutory or otherwise.

Alternative 2: Temporary Help:

- Student Assistants are able to work intermittently during the school year term and full-time during the Summer months, and can not support the full-time functions required by the CB Plan operation. Typically, temporary help staff do not possess the knowledge and abilities to perform at the level required. In addition, the use of temporary help at this level would require extensive on-going training and development by the CB Plan analytical staff, which would detract from their normal duties and responsibilities and would not be cost efficient to State Government.

Alternative 3: Contract with a third party administrator:

- The TRB may administer the plan through an agreement with a qualified third -party administrator to provide various administrative duties; however, STRS is in the process of finalizing a Feasibility Study Report that will provide for those administrative services internally. This alternative would require the redirection of substantial resources to complete the competitive bid process and conversion from the current reporting process to a new process. Staff would still be required to provide technical assistants to employers requesting assistance with reporting problems.

Alternative 4: Establish permanent funding:

- Establish permanent funding for the two established positions, MST and SSM I, already familiar with the cash balance program and its day-to-day operations, which is necessary to successfully administer present levels of support as established in Part 14 of the TRL for the benefit of part-time educators. The current staffing levels have proven to be effective and have helped the CB Plan grow over 88% in the past five months in total contributions and participation.

Alternative 5: Redirect the CB Plan functions to another Branch:

- This is not a viable alternative when considering the responsible Branch would be required to pursue the Budget Change Proposal process to obtain the additional staff. If the Branch were to use existing resources, the impact would have a similar effect as Alternative 1. Using existing resources within another branch to maintain the current workload levels and expected growth would have a negative impact on existing program operations, and require extensive and on-going training and development for new staff to learn and maintain the CB program. There is potential for an adverse affect on providing benefit payments and service to participants and employers within the expected time frames.

F. TIMETABLE

1999-00 Fiscal Year

G. RECOMMENDATION

Alternative 4: To establish permanent funding for one Management Services Technician position and one Staff Services Manager I position to continue administering the STRS Cash Balance Plan effective July 1, 1999.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 14

TITLE: Establish One Position In Support Of The Cash Balance Plan

BRANCH/OFFICE: Governmental Affairs and Program Development Branch
Planning & Research Office

SUMMARY: This BCP requests funding for a new Program Technician II position. This position will address the growing workload as member participants are added, for example, increases to contribution and statistical data and member eligibility reviews. The CB Plan has now been available for two years and currently has approximately 3,500 participants. STRS' goal is to add 2,000 participants every year for the next four years.

TOTAL POSITIONS: 1.0

TOTAL COST: \$56,300 (\$44,000 permanent funding)
(\$12,300 one-time funding)

TITLE OF PROPOSED CHANGE:

Establish One Position In Support of the Cash Balance Plan

A. NATURE OF REQUEST

The goals of the Teachers' Retirement Board (TRB), the State Teachers' Retirement System (STRS), Business Plan, and the Governmental Affairs and Program Development (GAPD) Branch are consistent in expressing a commitment to provide a financially sound retirement system with a continuous improvement in the level and timeliness of benefits and services within available funding.

STRS currently offers a Cash Balance (CB) Plan to meet the retirement needs of educators. The CB Plan was designed for part-time employees hired to work less than half time. As of January 1998 there were 1,592 participants enrolled in the CB Plan. In June 1998, the participant levels grew 118% for a total of 3,472 participants. STRS' goal is to add 2,000 participants every year for the next four years. It is estimated that the eligible population for the CB Plan is 96,000. STRS has targeted 18 counties and three independent districts for marketing with a total eligible population of about 24,000. Existing staff resources have engaged in overtime activities to keep up with the workload. The anticipated growth in participant enrollment will only exacerbate this staffing resource shortage.

The proposed Program Technician II will work under the direction of the Manager, Planning and Research Office (PRO), Technology Unit within the Legislation, Planning and Research Division (LRPD). The position will be responsible for performing the daily routine technical tasks associated with the CB Plan, such as monitoring statistical and contribution data to ensure information appends to the database in an accurate and timely manner. In addition, the PT II will be required to review and determine CB Plan benefit eligibility based on statutory rules and policies regarding plan benefits.

B. BACKGROUND/HISTORY

Chapter 592, Statutes of 1996 (AB-1298, Ducheney, et al), which became effective July 1, 1996, authorized STRS to establish a Cash Balance retirement program. The program is to be administered by STRS for part-time public school employees, which employers may elect to provide for persons employed less than half-time at a contribution rate that is lower than Social Security tax.

With the establishment of the new CB retirement program, additional staff resources were authorized by the TRB to administer the plan. In October of 1995, a CB Plan unit was formed, which was comprised of one Career Executive Assignment, Level II (CEA II), one Staff Services Manager I (SSM I), two Associate Governmental Program Analysts (AGPAs), one Assistant

Information Systems Analyst (AISA), and one Office Technician (OT). As the plan evolved from the implementation phase to the operational phase, the staffing needs significantly changed. In July of 1996, the ASIA position was downgraded to the MST level to provide technical assistance in the reporting aspect of the program and assist employers accordingly.

Initially the CB Plan was placed under the direction of the New Products Division (NPD), as it was formerly called, which reported directly to the Chief Executive Officer. In October of 1997, the NPD including the CB Plan was redirected to the GAPD Branch. In April 1998, the GAPD Branch reorganized again to balance the distribution of tasks, which essentially absorbed the NPD with existing operations, and staff were repositioned accordingly. The marketing aspect of the CB Plan including the SSM I position was placed under the direction of the Public Affairs Division, and the PRO absorbed the CB Plan and New Products Development operations. The MST and the remaining AGPA were repositioned under the management of the Technology Support Unit within PRO and are the primary support for the technology and reporting functions of the CB Plan.

C. STATE LEVEL CONSIDERATIONS

This BCP is:

- In accordance with STRS' goals, objectives, business plans, and policies to expand and improve upon benefits, continuously improve the delivery of benefits and services; maximize the level of benefits and services within available funding; and research and apply information technology that meets or exceeds internal and external customer needs.
- In agreement with STRS' GAPD Branch mission to "Through leadership, build the foundation for STRS to be recognized as an innovative and responsive provider of benefits and services to all stakeholders."
- In accordance with Part 14 of the TRL (STRS CB Plan provisions)

In addition, the California Pension Protection Act (Proposition 162) grants the TRB plenary authority over administrative decisions of the System in a manner that will assure prompt delivery of benefits and related services to members and their beneficiaries.

There is no impact on other state departments.

D. JUSTIFICATION

This proposal would support the STRS vision statement to commit to lifetime security and service that meets the changing needs of California's educators. It is STRS goal to continuously improve the delivery of benefits and services, provide a maximum level of benefits and services within available funding supported by an organizational environment that is professional, productive and innovative.

As the CB Plan has grown and employers are showing increased interest in the plan, additional resources are needed to adequately maintain the appropriate level of support needed to administer the plan. The plan participation base grew significantly between the period of January and June of this year, and STRS expects the participation levels to continue to increase (e.g., as of July 1, 1998, two additional employers will begin participation. According to their estimates, 970 teachers will be eligible to make the election into the CB Plan. Of these eligible teachers, approximately 485 are expected to elect participation).

The CB Plan is in its second year of operation and at the point of receiving benefit payment requests. In addition, with the increase in employer participation, disbursement of benefits and other reporting functions, additional resources are needed to handle the additional workload in the 1998/99 fiscal year. Arrangements have been made to temporarily redirect a PT II level position to accommodate the current workload needs of the plan. The approval of this BCP will provide continued permanent support for the CB Plan for the 1999/00 fiscal year and there after.

If this request for a PT II position is denied, the PRO will not have sufficient staff resources to maintain the CB Plan efficiently.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Use existing resources:

Existing staff are already putting in extra time to keep up with the current workload. The expected increase in participant enrollment would have the following results:

- Employers not receiving the level of customer service that is necessary to successfully fully implement and maintain the CB Plan;
- The inability to correct reporting errors that could compromise the integrity of employer and employee data in a timely manner;
- A decline in workshops that are necessary for assisting employers on the technical aspects of the CB Plan; and
- The benefit eligibility and payment processes would be delayed.

Alternative 2: Temporary Help:

- Student Assistants are able to work intermittently during the school year term and full-time during the Summer months, and can not support the full-time functions required by the CB Plan operation. Typically, temporary help staff do not possess the knowledge and abilities to perform at the level required. In addition, the use of temporary would require extensive on-going training and development by the CB Plan analytical staff, which would detract from their normal duties and responsibilities and would not be cost efficient to State Government.

Alternative 3: Overtime:

- There are already specific issues that necessitate a certain amount of overtime for the PRO staff. Current analytical staff have had to absorb the additional workload associated with the increase in participation levels. Prolonged use of overtime can be counterproductive and costly especially since working extra hours adds undue stress to existing heavy workloads.

Alternative 4: Establish a permanent position for a PT II:

- The responsibilities of reporting and benefit payment processes are consistent with the job specifications for a this level staff. Once trained, the PT II could provide an adequate level level of customer service that meet the needs of growing participation levels, and essential to for the on-going support and success of the CB Plan.

F. TIMETABLE

1999-00 Fiscal Year

G. RECOMMENDATION

Alternative 4: Establish one permanent, full-time Program Technical II position to become effective July 1, 1999. STRS will use existing resources to provide adequate resources for the 1998/99 fiscal year.

1999-00 BUDGET CHANGE PROPOSALS
BCP # 15

TITLE: Establish One Position and Provide Funding For A Health Benefits Study

BRANCH/OFFICE: Governmental Affairs and Program Development Branch
Planning & Research Office

SUMMARY: This BCP requests funding for an Associate Governmental Program Analyst and funding to conduct a health benefits study. This position will be responsible to oversee the health benefits study, as well as provide analytical support associated with new benefit increases that are currently under consideration by the Teachers' Retirement Board.

TOTAL POSITIONS: 1.0

TOTAL COST: \$281,300 (\$ 69,000 permanent funding)
(\$212,300 one-time funding)

TITLE OF PROPOSED CHANGE:

Establish One Position and Provide Funding For A Health Care Benefits Study

A. NATURE OF REQUEST

The goals of the Teachers' Retirement Board (TRB), the State Teachers' Retirement System (STRS), Business Plan, and the Governmental Affairs and Program Development (GAPD) Branch are consistent in expressing a commitment to provide a financially sound retirement system with continuous improvement in the level and timeliness of benefits and services within available funding.

The addition of an Associate Governmental Program Analyst (AGPA) in the Planning and Research Office (PRO), which is under the direction of the Legislation, Planning and Research Division (LRPD), is integral to accomplishing the commitment set forth by both the Board and the System. This proposed position will be responsible for undertaking the optional health care benefits study, and the requested \$200,000 will provide the funds necessary to complete the study. The AGPA will also be responsible for analyzing pension plan design trends, state/federal legislation, research and development of new products as well as providing direction for departmental implementation of various benefit programs. This position will be reviewing and monitoring the progress of concepts such as universal Social Security, portability, flat tax and other proposed new trends.

Legislation is currently being pursued to provide an appropriation of \$200,000 from the Teachers' Retirement Fund (TRF) for the health care benefits feasibility study, which includes developing a plan for providing these benefits. However, if the bill fails passage, STRS will be required to use existing departmental resources to complete the study. If the plan were implemented, legislation would require the TRB to reimburse the TRF this sum. The bill specifies that the System must recover its administrative costs from the insurance premiums of those participating in the program.

B. BACKGROUND/HISTORY

In October 1997, the Career Executive Assignment (CEA, Level I) position that directed the activities of the CB Plan under the New Products Division (NPD) within the GAPD Branch became vacant. The NPD consisted of two components, the CB Plan including Marketing, and New Products Development. The CB Plan function included implementation, administration, reporting and marketing of the new program, which was enacted in 1995. The New Products Development function provided varied and complex technical support on new products and services for consideration by the TRB.

In April 1998, the GAPD Branch reorganized to balance the distribution of tasks. The CEA I position was transferred from the NPD to direct the activities of LRPD, which includes State legislative services, actuarial services, and planning, research and technology functions within the PRO. Essentially, the former NPD was absorbed within the existing GAPD Branch operations, repositioning staff accordingly. The market aspect of the CB Plan was placed under the direction of the Public Affairs Division, and the PRO absorbed the CB Plan and New Products Development operations.

The additional responsibilities placed on the PRO and numerous proposed legislative changes and national retirement trends that have developed in recent years, the PRO is more involved and focused in seeking benefit enhancements and new programs for

members and their beneficiaries. Associated with this, there are increasingly complex, highly political, and controversial issues that must be addressed immediately since both the media and constituent groups are seeking to expand retirement alternatives.

Currently, an issue of great concern is the lack of health care benefits for STRS' retired members. Health care coverage for retirees varies greatly and is offered by school district employers on a district-by-district basis, as negotiated during collective bargaining. Few districts provide benefits to retired employees, and of those who do, some only provide benefits until age 65 or the onset of Medicare. Many districts provide neither contributions nor benefits to retired employees except to offer them group coverage. The health care issue for these members is further compounded because many of the retired STRS members are not eligible for Medicare coverage.

The TRB and various employer/client groups have either sponsored or supported legislation in the past that would provide health care opportunities that benefit California retired educators. SB-1902/1992 (Johnston, et al) would have required the TRB to conduct a statewide health benefits study of certificated school employees. The Governor vetoed this bill and determined it served as a catalyst for seeking a statewide health benefit package for school employees, rather than being sought at the local level through collective bargaining. Then Senator Dills introduced health care legislation in 1994 (SB-192) and 1995 (SB-471, died in committee) that would have authorized health insurance for STRS members, as specified. The Governor vetoed SB-192 and determined that STRS would have to acquire special expertise and resources to administer a health benefits plan, and since the benefit would be partially funded by school districts, it would reduce resources available for classrooms.

Current legislation in progress, SB-1528/1998 (Schiff) is basically a reintroduction of previous bills that would authorize the TRB to contract for health insurance, as specified. The most recent amended version of the bill would require STRS to conduct a feasibility study assessing how to develop a process to contract for health, vision, and dental insurance for active and retired members, beneficiaries, children, and dependent parents. If STRS is not successful in getting the Governor's approval on this significant legislation, the TRB authorized at their April 2, 1998 meeting for STRS staff to undertake the study using existing resources.

C. STATE LEVEL CONSIDERATIONS

This BCP is:

- In accordance with STRS' goals and objectives to expand and improve upon benefits, continuously improve the delivery of benefits and services with available funding, and research and apply information technology which meets or exceeds internal and external needs.
- In agreement with STRS' GAPD Branch mission to "Through leadership, build the foundation for STRS to be recognized as an innovative and responsive provider of benefits and services to all stakeholders."
- Consistent with the TRB's direction, as approved at their April 2, 1998 meeting, to conduct a comprehensive study to determine the feasibility of STRS offering optional supplemental benefits, including health care coverage, which active and retired members could elect to purchase.

In addition, the California Pension Protection Act (Proposition 162) grants the TRB plenary authority over administrative decisions of the system in a manner that will assure prompt delivery of benefits and related services to members and their beneficiaries. There is no impact on other state departments.

D. JUSTIFICATION

This proposal would support the STRS vision statement to commit to lifetime security and service that meets the changing needs of California's educators. It is STRS goal to continuously improve the delivery of benefits and services, provide a maximum level of benefits and services within available funding supported by an organizational environment that is professional, productive and innovative.

Current staffing levels consist of three associate level analysts in the PRO. One of these positions falls under the Technology Support Unit and is responsible for the analytical technical support for the Cash Balance Plan program. The two remaining positions provide analytical and research support to the PRO Manager on a variety of special projects and on-going activities. The addition of an associate level analyst is critical to the continued success and rapid responsiveness of the PRO in the timely and accurate research, development, evaluation, and recommendation of sensitive and controversial policy issues, plan design concepts, and taxation ramifications. Failure to obtain this position and the funding for the feasibility study could delay efforts to evaluate health insurance benefits for retired educators and eligible family members. In addition, research and analytical support for new products would also be delayed and have an adverse affect on STRS success in providing any new benefit alternatives and enhancements as directed by the TRB, which will impact STRS' ability to deliver benefits to its membership.

Recent findings resulting from the June 30, 1997 valuation report of the DB Plan as presented by the STRS consulting actuary, Watson Wyatt Worldwide, has determined that the Teachers' Retirement Fund was 97.3 percent funded with only a three year amortization period remaining for the unfunded obligation. As a result of this gain, the TRB, on behalf of California educators, is finally in a position to consider potential benefit increases for the membership. The AGPA position will provide the necessary support to administer these benefit enhancements, and research the feasibility of future benefits.

In addition, STRS staff, employer, and employee advisory groups all view health benefits coverage as an integral part of a secure retirement. Rising health care costs threaten members' economic security. In keeping with its commitment to expand and improve benefits, the TRB directed staff to undertake and determine the feasibility of STRS offering health care benefits for retired and active members and their families, and determine the best design for a STRS health benefits program, regardless of any pending legislation. The addition of one more AGPA and the appropriation of funds are critical to providing the necessary resources to undertake this study. The position being established on a permanent basis is necessary to effectively manage the increased and shifting workload within the PRO.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Continue with existing staffing/funding levels:

This alternative would result in STRS' inability to achieve its goals and objectives to be innovative and responsive in providing new concepts for a secure future for STRS

members. In addition, Existing staff resources are insufficient to meet the increasing responsibilities placed in the PRO to respond timely on impending state/federal legislative and funding changes and undertake the comprehensive health care study as directed by the TRB. Specifically, this alternative would be contrary to the TRB's direction to be innovative in seeking affordable health care benefits for the membership.

Alternative 2: Overtime:

There are already specific issues that necessitate a certain amount of overtime for the PRO staff. Current analytical staff have had to absorb the additional workload associated with the implementation or proposed changes to other state and federal legislative issues (e.g. mandatory Social Security, the Deferred Retirement Option Plan, the merger of the trust for the CB and Defined Benefit Plans, etc.). At times, in order to meet deadlines and workload requirements, the PRO manager has had to provide analytical support that detracts from normal duties and responsibilities, and affects the organizational effectiveness of the GAPD Branch. Prolonged use of overtime can be counterproductive and costly especially since working extra hours adds undue stress to existing heavy workloads.

Alternative 3: Temporary Help:

The use of temporary help is not a viable alternative when considering the more sensitive and complex analytical work involved. Typically, temporary help staff do not possess the knowledge and abilities to perform at the level required. In addition, the use of temporary help at this level would involve labor intensive recruitment efforts, create voids in the workflow, and require extensive on-going training and development for new staff.

Alternative 4: Establish a contract for staff services:

Contracting for services is a very time-consuming process but is a viable alternative for retaining services for some aspects of the study. However, for the continuity of providing feasible health care benefits and the potential for STRS to administer such a program, if approved by the Board, a permanent position is needed to provide analytical support associated with evaluating this product as well as other new products.

Alternative 5: Establish a permanent position for an Associate Governmental Program Analyst and provide one-time Funding to conduct the optional health care benefit study:

The augmentation of one AGPA and a \$200,000 one-time General Fund Appropriation would enable STRS to conduct a comprehensive optional health care benefits feasibility study. The AGPA would also provide on-going research, analyze proposed state/federal legislation, evaluate pension plan design trends and new products, and determine the impact on the System.

F. TIMETABLE

Establish a permanent AGPA position effective July 1, 1999. If SB-1528 (Schiff) fails passage, appropriate \$200,000 from the TRF effective July 1, 1999.

G. RECOMMENDATION

Alternative 5: Establish one permanent, full-time AGPA position and provide funds to conduct a study on the feasibility of providing health care for members and their families in the 1999/00 fiscal year.